DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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Postal Rate and Fee Changes, 1997	)	**Docket No. R97-1**

RESPONSE OF RECORDING INDUSTRY ASSOCIATION OF AMERICA, ET AL. WITNESS ANDREW TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE (USPS/RIAA-T-1-7-31)

The Recording Industry Association of America ("RIAA") hereby provides the responses of witness Gary M. Andrew to the following interrogatories of the United States Postal Service, filed on January 27, 1998: USPS/RIAA-T1-7-31.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

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February 6, 1998

RESPONSE OF RECORDING INDUSTRY ASSOCIATION OF AMERICA, ET AL. WITNESS ANDREW TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/RIAA et al.-T1-7

Please refer to page 7 of your testimony.

a. Please explain in detail what logic or rationale you use to suggest that it is appropriate to compare costs that have been adjusted by the differing level of presort for parcels versus flats with revenues that have not been adjusted by the differing level of presort of parcels versus flats.

b. Is it your testimony that Standard Mail (A) that is more deeply dropshipped and/or finely presorted pays the same rate as identical mail that is less deeply dropshipped and/or less finely presorted?

RESPONSE

a. By relying on the actual data from the 1996 Revenue, Pieces and Weight ("RPW") to compute average revenues, the actual mix of dropshipping and presortation and its impact on revenues has been considered. No further adjustment to the average revenues is necessary.

b. No.

USPS/RIAA et al.-T1-8

Please confirm that your analysis is predicated on Base Year 1996 and not Test Year 1998 data.

RESPONSE

Confirmed, because the Postal Service could not provide data to make the Test Year 1998 analysis. (See USPS' Witness Moeller's responses to interrogatory

PSA/USPS-T36-4; interrogatory PSA/USPS-T26-1 redirected from Witness Seckar; and interrogatory PSA/USPS-T36-6 redirected from Witness Mayes).

USPS/RIAA et al.-T1-9

Please refer to page 9 of your testimony. Please confirm that you have done no analysis examining the varying levels of dropship and presort over time for the data contained in Exhibit RIAA, et. al.-1A. Please also confirm that you have done no analysis examining the impact of any rate changes over that time period.

RESPONSE

Both confirmed, however, as I explained in my response to interrogatory USPS/RIAA, et al.-T1-7 above, the average revenues that are shown in Exhibit RIAA, et al.-1A reflect both the varying levels of dropship and presort and the associated changes in rates over the noted time period. Stated differently, the revenues shown in Exhibit RIAA, et al.-1A reflect the revenue impact of both different levels of dropship/presort and changes in actual rates over time.

USPS/RIAA et al.-T1-10

Please confirm that the parcel density numbers you cite on page 27, line 22 of your testimony are based on survey data not statistically stratified for Standard Mail (A) parcels and on samples of only 42 containers of mail. Please explain any different understanding you might have.

RESPONSE

I did not participate in the Postal Service's study that produced the supplement to LR-MCR-13 which contained the 14.9 pounds per cubic foot average density; therefore,

I cannot attest to the details of the design. Based on my reading of the available records, my training and experience in sampling, I understand the following:

a. The sample size was 42 sampling units;

b. Each sampling unit was a container (e.g., hamper) containing many parcels of mail. The items in the container are known as sampling elements which are comparable to the samples observed in MC97-2 and reported in LR-PCR-38;

c. One should not confuse and attempt to compare the sampling unit used in R94-1 and reported in LR-MCR-13 with the sampling element of LR-PCR-38 in MC97-2;

d. The type of sampling used in R94-1 is called cluster sampling (c.f. Cochran, Sampling Techniques Wiley 1963);

e. Cluster sampling as used in R94-1 is much more efficient for measuring the density of mail in transit than to sample the individual elements as was the case in the study reported in LR-PCR-38 in MC97-2;

f. Measuring the density of items in the container (the cluster) is subject to much less measurement error than measuring the individual pieces of mail (sampling elements). Furthermore, the packing that takes place in a container reflects the true cube of the contents in the transportation process, where measurement of individual pieces does not;

g. Stratified sampling is a less efficient method in this environment than cluster sampling.

USPS/RIAA et al.-T1-11

Please refer to pages 24-26 of your testimony and Exhibit RIAA, et al.-1F. Please also refer to the CD/ROM version of LR-PCR-38 presented in Docket No. MC97-2. Are you aware that the Check Boxes and CD Boxes which appear to dominate your "study" have the first and third highest densities of the ten Standard Mail (A) parcel types sampled for the study presented in MC97-2?

RESPONSE

Yes. These categories of mail also represent the first and third highest number of pieces of the ten Standard (A) parcel types sampled for the study presented in MC97-2. In my testimony I have adjusted the weight to reflect this fact (see page 25, lines 22-23 of my direct testimony).

USPS/RIAA et al.-T1-12

Is it your testimony that the data provided by RIAA, et al. and summarized in Exhibit RIAA, et al.-1F is statistically representative of:

a. the total Standard (A) parcel population?

b. of all Standard (A) mailers?

c. of all Standard (A) products?

d. If you answer yes to any of these, please explain your answer and provide the sample design, sampling weights, and other supporting data.

RESPONSE

(a-d) The data presented in Exhibit RIAA, et al.-1F are representative of the 325 million parcels tabulated there. These data constituted 33% of the parcels in Standard (A) mail. The numerical results of this exercise were used only as one of three indications of uncorrected bias in the Postal Service's methodology to estimate of densities of Standard (A) mail. I use the results of Postal Service's previous R94-1 study of density in my analysis.

USPS/RIAA et al.-T1-13

Please refer to page 25, lines 14 and 15, of your testimony. Please confirm that the pieces underlying the RIAA data (representing 33 percent of total pieces and 45 percent of total weight) may have a significantly different profile than pieces not in the RIAA data in terms of:

a. mailers,

b. products,

c. piece weights,

d. piece dimensions,
e. number of pieces,

f. total weight,

g. volumes,

h. densities, and

i. total cube.

j. For any part above that you cannot confirm, please provide all analyses indicating that the profile of the RIAA pieces is similar to that of the non-RIAA pieces.

RESPONSE

(a-j) Not confirmed. I have not been provided the detailed information necessary to categorize the profile of "pieces not in the RIAA data". Without this information, I am unable to form an opinion regarding whether pieces not in the RIAA data may/may not have a significantly different profile in terms of the parameters noted as items (a-i) of this interrogatory.

USPS/RIAA et al.-T1-14

Please confirm that the RIAA, et al. parcel average weight is 137% of the USPS parcel average weight (11.4 ounces/8.3 ounces). Do you have any reason to believe that the RIAA, et al. parcel sample is statistically different than the USPS parcel population? Please explain your answer.

RESPONSE

I cannot say whether the weight for the RIAA et. al. parcels is "statistically" different from the USPS parcel population, however, the adjustment that I made at page 25, lines 22-23 recognizes this difference.

USPS/RIAA et al.-T1-15

Please refer to page 25, line 21 of your testimony. As you have provided "one method to correct this difference in weight", please indicate other possible methods. Please explain the merits and faults of your "one method" and other possible methods.

RESPONSE

I did not consider other possible methods. The merit of this adjustment is that the overall weight bias is removed.

USPS/RIAA et al.-T1-16

Please refer to page 25, footnote 18, of your testimony. Please confirm that each and every parcel in the RIAA, et al. sample has the exact same proportion of 0.522 ounces per piece/0.712 ounces per piece to linearly adjust its density to account for the difference in weight. Please explain your answer.

RESPONSE

Not confirmed. Each and every individual parcel in the RIAA, et al. sample does not have the exact proportion of 0.522 ounces per piece to 0.712 ounces per piece. The proportional relationship between the RIAA, et al. data and the USPS data that was developed in Table 8 of my testimony and is based upon the average weight per piece for all pieces in each data set. The adjustment was made on the aggregate weight.

USPS/RIAA et al.-T1-17

Please refer to the 1996 parcel data from 14 mailers, page 24, line 10, of your testimony.

a. How were the data "provided?" Please indicate time frames, formats, data elements, software, etc. for the data provided.

b. What was asked for from each mailer?

c. How many mailers were asked for data?

d. How many mailers provided data that were not summarized in Exhibit RIAA, et al.-1F?

e. Please confirm that all data are from 1996?

f. Did you or someone under your supervision have to process, clean, scrub, etc. the data for use in your testimony? If yes, please explain the processing steps.

RESPONSE

a. The data were provided via fax and via telephone over a 4 week period in November and December, 1997.

b-d. The data were provided to me by counsel for RIAA, et al. I was not provided the detail of what was asked of each mailer, including the number of mailers asked. I utilized all data provided to me, except as noted below.

e. Not confirmed. Mailers for at least one group of products reported data for 1997, not 1996.

f. Yes. The data were transferred from a hard copy into a computer worksheet. Data for pieces that weighed more than 1.00 pound per piece were omitted because these pieces could not be mailed Standard (A).

USPS/RIAA et al.-T1-18

Please confirm that data are missing from Exhibit RIAA, et al.-1F, column 10, lines 1, 4, 6, and 8, and column 11, line 27. If confirmed, please provide the data or explain why the data are missing.

RESPONSE

Not confirmed. The data provided contained a range of weights for identical shapes and, to be conservative, I used the lighter weight for all pieces. The empty position is to indicate this selection of the lower weight which is conservative for purposes used in my statement.

USPS/RIAA et al.-T1-19

Please provide the Number of Pieces, Weight (pounds), and Volume (lbs./cu. ft.) data from Exhibit RIAA, et al.-1F to allow us to calculate and validate other data that you provide.

RESPONSE

This information is available subject to protective conditions.

USPS/RIAA et al.-T1-20

Please provide data supporting your assumption that the density of film in Exhibit RIAA, et al.-1F, line 27, is 18.

RESPONSE

See my response to USPS/RIAA, et al.-T1-19.

USPS/RIAA et al.-T1-21

Please refer to Exhibit RIAA, et al.-1F of your testimony. Please explain how 14 mailers provided parcel data yet there are greater than 14 distinct observations in Mailer, column 1, of the referred exhibit.

RESPONSE

Certain mailers provided data for more than one product type. To prevent identification of mailers by their competitors, I did not identify the products together under one mailer.

USPS/RIAA et al.-T1-22

Please refer to page 23 of your testimony. Please describe what you mean by a "convective condition", a "convention cycle", and a "connective cycle".

RESPONSE

On page 23, line 9 of my testimony, "convective condition" should read "convection cycle". On page 23, line 11, "connective cycle" should read "convection cycle". Please see my response to USPS/RIAA, et al.-T1-6.

USPS/RIAA et al.-T1-23

Please refer to pages 23-24 of your testimony and explain your reason for stating that the physics of granular materials imply that less dense pieces move to the top of a container. Assuming that this theory applies to mail, is it your testimony that larger Standard Mail (A) parcels have a lower average density than smaller Standard Mail (A) parcels? Please provide any data to support this claim including nationally representative surveys you have conducted or commissioned.

RESPONSE

Please refer to pages 23-24 of my testimony in which I develop my reasoning for stating that "the physics of granular materials predicts the large volume parcels will appear on the top of a container and, given the one pound weight limitation on Standard (A) mail, these large parcels will have a lower than average density." Given the physics of granular materials, one might expect that a larger number of large volume parcels with a lower than average density would be located at the top of a hamper containing a mix of Standard (A) mail. Sampling such a hamper from the top as shown in LR-PCR-38 in MC97-2 produces biased results.

USPS/RIAA et al.-T1-24

Please refer to Tr. 11/5357 (response of witness Bradley to OCA/USPS-T14-1) and Tr. 12/6319 (response of witness Degen to OCA/USPS-T12-31).

a. Please explain why you believe MODS variabilities are not a good means to estimate non-MODS variabilities.

b. Is it your testimony that the lack of the MODS work-hour and volume reporting system in a given facility means that flats and parcels are handled in identical or identically costly ways? If your answer is yes, please provide support for your contention.

RESPONSE

a. The Postal Service is not using MODS variabilities to estimate individual non-MODS variabilities. The procedure simply applies the system average variability for MODS offices to all non-MODS cost pools. This masks any mix differences in the use of resources with differing variabilities. In the particular case of parcels which apparently use a higher proportion of manual activity, this can make a large difference because manual activity tends to have lower volume variabilities than, for example, automated operations. When the single value system average volume variability from MODS offices is used for all cost pools in non-MODS offices, the mail that uses resources with actual lower variability will likely be assigned costs larger than are appropriate.

b. No.

USPS/RIAA et al.-T1-25

Please explain how the Standard Mail (A) parcel versus flat cost differential would change from your proposal if all non-MODS costs were completely ignored.

RESPONSE

The cost differential between parcels and flats in my analysis would not change if non-MODS costs were completely ignored. My position is that the methodology used

by the USPS will not support any cost differential between flats and parcels associated with non-MODS sources.

USPS/RIAA et al.-T1-26

Please confirm that the volume variability assumptions for mail processing implicit in current rates is 100 percent. If not confirmed, please state your understanding fully. What impact do you believe using this assumption would have on the stated cost difference between parcels and flats in Standard Mail (A) as compared to estimates in the current case? Please explain why did you not use this as the default assumption for non-MODS offices.

RESPONSE

Confirmed. I did not look for an alternative method for finding possible differences between parcel costs and flat costs due to non-MODS costs.

USPS/RIAA et al.-T1-27

Please refer to page 21, lines 3 and 4 of your testimony. Please confirm that misinterpretation or tabulation error could also result in an overstatement of estimated density.

RESPONSE

Not confirmed. Based upon Exhibit RIAA, et al.-1D and Table 7 of my testimony there are only two outcomes that can be calculated. One outcome is the correct estimate of density based upon the correct width of 5.875 inches (Table 7, Column 3, Line 1). The other outcome is the incorrect estimate of density based upon the overstated width of 7.750 inches (Table 7, Column 3, Line 2). Thus, this measurement error would always produce an understatement of estimated density.

USPS/RIAA et al.-T1-28

Interrogatory USPS/RIAA et al.-T1-5 asked about your familiarity with "studies or experimental observations of the flow characteristics, convection or trapping which occurs when faceted objects of a size and shape similar to those found in the mailstream are subjected to vibrations similar to those normally supplied by transportation and handling of mail containers," and asked for you to provide information regarding such studies or experiments. Your response to this interrogatory spoke only about your "personal experience with loose, heterogeneous materials in containers." Please provide a direct and more responsive answer to the original interrogatory.

RESPONSE

I know of no published studies of the nature you describe.

USPS/RIAA et al.-T1-29

Please see your testimony at page 5, lines 7-9. Suppose that it was concluded that shape was the sole reason for the cost difference between flats and parcels, and that weight played no role. However, the difference in weight between the two shapes resulted in a revenue difference which exactly equalled the cost difference. Under those circumstances, would you oppose a shape-based rate element? If not, why not.

RESPONSE

I cannot respond without investigating the data assumptions and analysis upon which these two conclusions were based.

USPS/RIAA et al.-T1-30

Please see your testimony at page 4, lines 18-22, which is point 5 in your "summary and findings" section.

a. Is this finding explained elsewhere in your testimony? If so, please identify where this finding is discussed.

b. Is it your testimony that the only surcharge that can be "justified" is one that results in revenues equal to costs?

c. Please confirm that if revenue equals costs there is no contribution from that group of pieces.

d. Is it your testimony that parcels, as a group, should make no contribution?

e. Is it "unjustifiable" that parcels make some positive contribution?

f. If you believe contribution from parcels is justifiable, what level of contribution would you recommend: higher than the average per piece contribution for the subclass, lower than average, or about the same? Please explain your answer.

RESPONSE

a. No.

b. It is my testimony that in developing any surcharge the USPS should consider not only the cost differential between flats and parcels but also their revenue differential.

c. Confirmed, if costs are defined as volume variable costs.

d. No.

e. No.

f. I do not have an opinion on this matter. It is my testimony that the maximum surcharge that can be justified using Witness Crum's methodology and available data is 3.2 cents per piece.

USPS/RIAA et al.-T1-31

Please see your testimony at page 11, lines 1-2. Explain the meaning of these two lines, and how they relate to Table 3.

RESPONSE

These two lines at page 11 of my testimony should be deleted.

DECLARATION

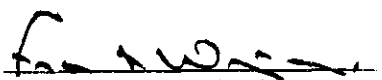
I, Gary M. Andrew, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

GARY M. ANDREW

Dated: 2-6-98

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



N. Frank Wiggins

DATE: February 6, 1998

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